BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO.: Order/AH/VB/2022-23/16002)

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995.

In respect of:

Nasik Entertainment World Developers Private Limited

(PAN: AACCN5270E)

In the matter of

Dealing in illiquid stock options at BSE Limited

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') observed large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange (hereinafter referred to as '**BSE**') leading to the alleged creation of artificial volume in the stock options segment. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options segment at BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as '**Investigation Period**').

2. It was observed during the course of investigation that certain entities were involved in reversal trades in BSE's Stock Options Segment. A total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment were reversal trades, which involved reversal of buy or sell positions in a contract by a client with subsequent sell or buy positions with the same counterparty. The reversal trades involved squaring off transactions, but with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation of artificial volumes in otherwise illiquid option contracts.

3. It was observed that Nasik Entertainment World Developers Private Limited (hereinafter referred to as '**Noticee**') was one of the various entities which had

indulged in reversal trades. It was observed that Noticee had entered into reversal trades with its counterparties which involved squaring off transactions with significant difference in sell value and buy value of the transactions. It was therefore alleged that Noticee had executed the reversal trades, which were non-genuine in nature and have created false or misleading appearance of trading in terms of creation of artificial volume in the Stock Options segment at BSE and therefore, it is alleged that the Noticee has violated the provisions of regulations 3(a), (b), (c), (d) and regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trading Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**'). In view of the above, adjudication proceedings have been initiated against the Noticee under the provisions of section 15 HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**').

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer (hereinafter referred to as '**AO'**), vide *order* dated July 02, 2021 under section 15-I of the SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') to inquire into and adjudge under the provisions of section 15HA of the SEBI Act the aforementioned alleged violation of the provisions of law by the Noticee.

SHOW CAUSE NOTICE, HEARING AND REPLY

5. Show Cause Notice ref. SEBI/AO/AH/P/OW/2021/0000015569/1 dated July 16, 2021 (hereinafter referred to as '**SCN**') was issued to the Noticee in terms of rule 4 (1) of the Adjudication Rules requiring the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, should not be imposed on the Noticee under the provisions of section 15HA of the SEBI Act. The SCN issued to the Noticee, *inter alia*, mentioned/alleged the following-

"….

5. The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the investigation period. The Noticee is alleged to have engaged in reversal trades (altogether three trades, two on the buy side and one on the sell side) in the contract

'BHEL15APR215.00CEW1' [i.e. BHEL, April 2015 Weekly European Call Option having maturity on the 1st Week at the Strike Price of Rs.215.00], which led to generation of alleged artificial volume of 2,20,000 units (buy side + sell side). These trades of the Noticee involved reversal with the same counterparty on the same day, but at significantly different price. Details of the reversal trades of Noticee in Stock Options segment of BSE during the investigation period are given in ***Annexure B****.*

6. *Summary of the reversal trades of Noticee in Stock Options segment of BSE during the investigation period are as follows:*

TRADE DATE	TRADE ID	BUY CLIENT	SELL CLIENT	BUY ORDER TIME	SELL ORDER TIME	TRADE TIME	TRADE RATE	TRADED QTY *
27/03/2015	5123	N M Impex Pvt. Ltd.	Nasik Entertainment World Developers Pvt. Ltd.	10:34:35.970189	10:34:36.680250	10:34:36.680250	13.15	110000
27/03/2015	4029	Nasik Entertainment World Developers Pvt. Ltd.	N M Impex Private Limited	10:34:41.780532	10:34:41.682562	10:34:41.780532	16.80	1000
27/03/2015	3251	Nasik Entertainment World Developers Pvt. Ltd.	N M Impex Private Limited	10:35:01.681785	10:35:02.285860	10:35:02.285860	22.15	109000

** Note: "Traded Quantity" or "unit" refers to lot size in contract multiplied by number of contracts traded.*

a. *While dealing in the said contract on March 27, 2015, at 10:34:36.680250 hrs the Noticee placed a sell order for 1,10,000 units @ Rs.13.15 per unit. The sell order of the Noticee got executed at 10:34:36.680250 hrs against the pending buy order placed by one 'N M Impex Private Limited' at 10:34:35.970189 hrs at the same rate for equal quantity. Within few seconds at 10:34:41.780532 hrs and 10:35:01.681785 hrs, the Noticee placed two buy orders first one for 1000 units @ Rs.16.80 per unit and second one for 1,09,000 units @ Rs. 22.15 per unit (totally for 1,10,000 units) which got executed at 10:34:41.780532 hrs and 10:35:02.285860 hrs against the sell orders from the same counterparty 'N M Impex Private Limited' placed at 10:34:41.682562 hrs and 10:35:02.285860 hrs at the same rates for equal quantities, respectively. This indicates that these trades are artificial and are non-genuine in nature.*

b. *The Noticee's trades generated artificial volume of 2,20,000 units, (buy side + sell side) which made up 100% of the Noticee's total volume in the said contract. Overall, the Noticee contributed artificial volume of around 42.31% in the said contract.*

c. *In view of the foregoing, it is alleged that Noticee, by indulging in execution of non-genuine reversal of trades in Stock Option with same entity within few seconds, created false and misleading appearance of trading in stock option and therefore allegedly violated Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a) of PFUTP Regulations, 2003.*

…."

6. The Noticee vide its reply dated August 05, 2021 *inter alia* submitted the following: -

"….

5. …. While we do not deny that we had traded in the options segment of the BSE, we totally deny that trades are not genuine…..

6. These trades are genuine trades and we totally deny that we had created artificial volumes. We have infact incurred losses in the transaction. We totally deny that our trades are artificial and are not genuine in nature. The contracts have been entered with an intention of making gains and are genuine in nature. They have not been entered into with an intention to create any artificial volumes in the market.

7. …. We deny this allegation as we would like to reiterate and submit that our trades are genuine in nature and were carried out in good faith and in the normal course of business and hence we have not violated the provisions of Regulation 3(a)(b)(c)(d), Regulation 4 (1), 4(2)(a) of the SEBI (PFUTP) Regulations, 2003.

…"

7. In the interest of natural justice and in terms of the Adjudication Rules, the Noticee was provided with an opportunity of personal hearing in the matter on December 20,

2021, through the online WebEx platform. Ms. Shailashri Bhaskar appeared as the Authorized Representative ('**AR**') on behalf of the Noticee on the stipulated date of hearing. During the course of hearing, the AR reiterated the submissions made by the Noticee in its reply dated August 05, 2021.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have taken into consideration the facts and circumstances of the case, the material available on record and the reply submitted by the Noticee. It is alleged that the Noticee had executed reversal trades, which were non-genuine trades and the same has resulted in the generation of artificial volume in the Stock Option contracts at BSE. In view of the same, it is alleged that Noticee has violated the provisions of Regulations 3(a), (b), (c), (d) and Regulation 4(1), 4(2)(a) of PFUTP Regulations and, therefore, it is alleged that Noticee is liable for penalty under the provisions of section 15HA of the SEBI Act.

9. Before moving forward, the relevant provisions of law allegedly violated by the Noticee and as mentioned in the SCN are reproduced below:

PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly-

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely: —

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

10. Reversal trades are considered as those trades in which an entity reverses its buy or sell positions in a contract with subsequent sell or buy positions with the same counterparty during the same day. The said reversal trades are alleged to be non-genuine trades as they are not executed in the normal course of trading, lack basic trading rationale, and allegedly lead to false or misleading appearance of trading in terms of generation of artificial volumes, hence these trades are deceptive and manipulative. From the facts/material made available on record, I find that the reversal trades executed by the Noticee, which were observed in the present case, were undertaken by the Noticee with its counterparty viz. N M Impex Private Limited with a predetermined arrangement to book loss or profit respectively, and therefore, the parties to the trades were not trading in the normal sense and ordinary course of business. Therefore, it is alleged that the Noticee by indulging in such reversal trades with its counterparty in the illiquid stock option segment at BSE has managed to generate artificial volume in the Stock Options segment at BSE during the investigation period.

11. The examination of the trade log of the Noticee during the above mentioned investigation period revealed that it had executed 3 non-genuine trades in one contract viz. “BHEL15APR215.00CEW1” on the Stock Options segment of BSE. I note that the abovementioned trades of the Noticee had resulted in the creation of artificial volume of a total of 2,20,000 units in the said contract. Further, it is observed that the trades executed by the Noticee were squared up within 26 seconds with the same counterparty i.e. trades were reversed within 26 seconds on same day. Thus, it is observed that Noticee had indulged in reversal trades with its counterparty in the stock option segment of BSE and the same were non-genuine trades.

12. Further, it is observed that most of these trades were squared up by the Noticee with its counterparty with a significant price difference. The non-genuineness of these transactions executed by the Noticee is evident from the fact that there was no commercial basis to suddenly, within a matter of 26 seconds, reverse the position with its counterparty with significant price difference. It is also observed that there was very little time gap (fraction of a second) between the buy and sell orders placed by the Noticee and its counterparty in case of all the three trades. Given the fact that the Stock Option contracts were illiquid in nature at BSE and also in view of the observations made above, I am convinced that Noticee has entered into reversal/non-genuine trades with its counterparty and in the process also generated artificial volume of 2,20,000 units, (buy side + sell side) in the otherwise illiquid stock option contracts at BSE which made up 100% of the Noticee's total volume in the said contract. Overall, the Noticee contributed artificial volume of around 42.31% in the said contract.

13. To illustrate, it is observed that while dealing in the said contract BHEL15APR215.00CEW1' [i.e. BHEL, April 2015 Weekly European Call Option having maturity on the 1st Week at the Strike Price of Rs.215.00], on March 27, 2015, at 10:34:36.680250 hrs, the Noticee placed a sell order for 1,10,000 units @ Rs.13.15 per unit. The sell order of the Noticee got executed at 10:34:36.680250 hrs against the pending buy order placed by one 'N M Impex Private Limited' at 10:34:35.970189 hrs at the same rate for equal quantity. Within few seconds at 10:34:41.780532 hrs and 10:35:01.681785 hrs, the Noticee placed two buy orders first one for 1000 units @ Rs.16.80 per unit and second one for 1,09,000 units @ Rs. 22.15 per unit (totally for 1,10,000 units) which got executed at 10:34:41.780532 hrs and 10:35:02.285860 hrs against the sell orders from the same counterparty 'N M Impex Private Limited' placed at 10:34:41.682562 hrs and 10:35:02.285860 hrs at the same rates for equal quantities, respectively. This indicates that these trades are artificial and are non-genuine in nature.

14. The Noticee has contended that the trades are genuine trades and denied that it had created artificial volumes. It also contended that it had incurred losses in the transaction. In view of the above observations, I hold that the Noticee and the counterparty placed their sell and buy orders within a difference of split seconds and

at precisely the same rates and quantities in both the legs of reversal trade. I also note that it is not mere coincidence that the Noticee could match his trades with the same counterparty with whom he had undertaken first leg of the reversal trade. It indicates that all the 3 transactions executed by the Noticee in the 1 Stock Option Contract were synchronized trades, which were reversed within a small time gap with prior meeting of mind between the parties to the trade. Needless to mention the fact that these transactions were manipulative/deceptive device with a view to create a desired loss and/or profit in the books of the parties to the transactions and in the process, artificial volumes were also generated through such trades. As per the material made available, the Noticee made a loss of ₹9,84,650/- as result of these trades.

15. At this juncture, it is pertinent to refer to the decision of the Hon'ble Supreme Court of India in the matter of *Securities and Exchange Board of India v. Rakhi Trading Private Limited* (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 dated February 08, 2018) wherein, the Hon'ble Supreme Court while cumulatively analyzing the reversal transactions held that-

"…From the facts before us, it is clear that the traders in question did not intend to transfer beneficial ownership and therefore these trades are non-genuine. Rather than allowing the market forces to operate in their natural course, the traders repeatedly carried out the impugned transactions which deprived other market players from full participation. The repeated reversals and predetermined arrangement to book profits and losses respectively, made it clear that the parties were not trading in the normal sense and ordinary course. Resultantly, there has clearly been a restriction on the free and fair operation of the market forces in the instant case…"

And further stated that-

"35.... Contextually and in simple words, it means a practice which does not conform to the fair and transparent principles of trades in the stock market. In the instant case, one party booked gains and the other party booked a loss. Nobody intentionally trades for a loss. An intentional trading for loss per se, is not a genuine dealing in securities. The platform of the stock exchange has been used for a non-genuine trade. Trading

is always with the aim to make profits. But if one party consistently makes losses and that too in a preplanned manner and rapid trades, it is not genuine..."

And further *held that -*

"Considering the reversal transactions, quantity, price and time and sale, parties being persistent in number of such trade transactions with huge price variations, it will be too naive to hold that the transactions are through screen-based trading and hence anonymous. Such conclusion would be over-looking the prior meeting of minds involving synchronization of buy and sell order and not negotiated deals as per the board's circular. The impugned transactions are manipulative/deceptive device to create a desired loss and/or profit. Such synchronized trading is violative of transparent norms of trading in securities......".

16. Additionally, the Hon'ble SAT in its judgement dated September 14, 2020 in the matter pertaining to Illiquid Stock Options in respect of Global Earth Properties and Developers Pvt Ltd relied upon the aforesaid judgement of Hon'ble Supreme Court and held that, "... *It is not a mere coincidence that the Appellants could match the trades with the counter party with whom he had undertaken the first leg of respective trade. In our opinion, the trades were non-genuine trades and even though direct evidence is not available in the instant case but in the peculiar facts and circumstances of the present case there is an irresistible inference that can be drawn that there was meeting of minds between the Appellants and the counter parties, and collusion with a view to trade at a predetermined price*."

17. In this context, I also find it relevant to refer to the decision of Hon'ble Supreme Court in the matter of *Securities and Exchange Board of India v. Kishore R Ajmera* {(2016)} 6 SCC 368 : AIR 2016 SC 1079} wherein, the Hon'ble Supreme Court has held that , *"... According to us, knowledge of who the 2ndparty/client or the broker is, is not relevant at all. While the screen based trading system keeps the identity of the parties anonymous it will be too naïve to rest the final conclusions on the said basis which overlooks a meeting of minds elsewhere. Direct proof of such meeting of minds elsewhere would rarely be forthcoming. The test, in our considered view, is one of preponderance of probabilities so far as adjudication of civil liability arising out of* *violation of the Act or the provisions of the Regulations framed thereunder is concerned...”*

18. In the same matter, the Hon’ble Supreme Court, has further held that, *“...In the absence of direct proof of meeting of minds elsewhere in synchronized transactions, the test should be one of preponderance of probabilities as far as adjudication of civil liability arising out of the violation of the Act or provision of the Regulations is concerned. The conclusion has to be gathered from various circumstances like that volume of trade effected; the period of persistence in trading in a particular scrip; the particulars of buy and sell orders, namely the volume thereof; the proximity of time between the two and such relevant factors...”*

19. The observations made in the aforesaid judgments apply with full force to the facts and circumstances of the present case. Therefore, applying the ratio of the above judgments, I am convinced that the execution of trades by the Noticee in the illiquid options segment with such precision in terms of order placement, price, time, quantity etc., the wide variation in prices of the same contract within seconds and also the fact that the transactions were reversed with the same counterparty clearly indicate a prior meeting of minds and therefore, a collusion of the Noticee with its counterparty with a view to execute the reversal trades at a pre-determined price. The trading behavior of the Noticee confirm that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in the contract. In view of the above, I find that the allegation of violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003 by the Noticee stands established.

20. Since the violation of the PFUTP Regulations is established, I am of the view that the Noticee is liable for monetary penalty under the provisions of section 15HA of the SEBI Act, which reads as under:

    Penalty for fraudulent and unfair trade practices.

    15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

21. I note that the provisions of Section 15J of the SEBI Act and rule 5 of the Adjudication Rules require that while adjudging the quantum of penalty, the adjudicating officer shall have due regard to the following factors namely: -

(*a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

22. Clearly, from the above observations, the Noticee was instrumental in the creation of artificial volume in the illiquid stock option contracts at BSE during the investigation period by executing reversal / non-genuine transactions. Though, the trades entered into by the Noticee were such that one of the counterparty books a profit while the other counterparty books a loss, it is not possible from the material available on record to quantify the amount of loss caused to genuine investors as a result of the reversal trades/ non-genuine trades executed by the Noticee with its counterparty. However, once the factum of violation of legal provisions is established, an appropriate penalty must follow. In this context, reliance is placed upon the order of the Hon'ble Supreme Court of India in the matter of *Chairman, SEBI Vs Shriram Mutual Fund* {[2006]5 SCC 361} –wherein the Hon'ble Supreme Court of India held that *"…In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established..."*

ORDER

23. Having considered all the facts and circumstances of the case, the material available on record and the factors mentioned in the preceding paragraphs, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, hereby impose a penalty of ₹5,00,000/-(Rupees Five Lakh only) on the Noticee viz. Nasik Entertainment World Developers Private Limited under the provisions of section 15HA of the SEBI Act for the violation of regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a) of the PFUTP Regulations. I am of the view that the said penalty is commensurate with the default committed by the Noticee.

24. The Noticee shall remit / pay the said amount of penalty within 45 (forty five) days of the receipt of this order either:

i. By way of Demand Draft (DD) in favour of "SEBI -Penalties Remittable to Government of India", payable at Mumbai and the said DD should be forwarded to the Division Chief, Enforcement Department -I (EFD), Division of Regulatory Action -4 [EFD1-DRA-4] SEBI Bhavan, Plot No.C4-A,' G' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai –400 051 and also send an email to tad@sebi.gov.in with the following detail

1	Case Name	
2	Name of the 'Payer/Noticee'	
3	Date of Payment	
4	Amount Paid	
5	Transaction No.	
6	Bank Details in which payment is made	
7	Payment is made for	Penalty of penalty under AO proceedings

OR

ii. Through online payment facility made available

a. on the website of SEBI i.e. www.sebi.gov.in by following the path as under:

ENFORCEMENT → Orders → Orders of AO → PAY NOW

b. at https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html.

25. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia,* by attachment and sale of movable and immovable properties.

26. In terms of rule 6 of the Adjudication Rules, a copy of this order is sent to the Noticee viz. Nasik Entertainment World Developers Private Limited and also to Securities and Exchange Board of India.

Date: April 13, 2022
Place: Mumbai

AMOL HOGADE
ADJUDICATING OFFICER